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RESEARCH NOTE TOP TEN PREDICTIONS FOR 2006

THE BOTTOM LINE

Next year's IT priorities will be about rationalization and delivery – but also about more power for users that choose to assert it. Key growth areas include on-demand applications beyond CRM, open source applications, and more power for both partners and purchasers.

PRICING PUSH BACK

The payment of annual maintenance fees has been grudgingly accepted by customers as part of the cost of using software, but as more of the IT budget is consumed with maintaining existing software, this cost is holding companies back from applying capital to new projects. The status quo is slowly changing, first with customers being more aggressive on negotiating annual fees, and now with vendors, such as Microsoft, increasing the benefits of their maintenance programs by adding training, consulting, and expanded customer service options. This is a good start, but as customers have more options for how they buy software products, including on-demand licenses and open source alternatives, vendors will feel more pressure to demonstrate the value of maintenance fees rather than risk losing customers for good.

PARTNERS GET MORE CLOUT

Channel partners serve as an ambassador for the vendor. A trusted partner with deep industry knowledge, combined with top-notch service delivery, is one that customers turn to repeatedly to handle all facets of their technology needs. As vendors seek to broaden their mid-market customer base, partners play an increasingly critical role. In the SMB market, the allegiance to the partner is typically much stronger than that to the vendor. For this reason, vendors will continue to put more money into channel partnerships, and work with them to build vertical-specific product extensions that will draw more customers to the fold.

OPEN SOURCE APPLICATIONS

As companies have become more comfortable employing open source technology on the server, some are taking the step of testing out open source applications for CRM, ERP, BI, and project management. Massachusetts made waves by setting a requirement that by 2007 all state agencies must be able to produce electronic documents that support the OpenDocument format. Open Source office suites such as OpenOffice, as well as suites from IBM, Novell, and Sun, support the standard. Microsoft Office does not. As state and local governments face budget constraints, more will follow Massachusetts' lead. And many businesses will join them in trying out open source applications as they provide a low-cost, low-risk

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alternative to the well-known and documented time and expense involved in deploying enterprise applications.

REMOTE WORKERS

While many companies have provided employees the option of working remotely, some have been reluctant to extend the practice past a select group of workers, fearing loss of control. But the realities of natural disasters and the rising cost of commuting to work provide compelling reasons for companies to examine their current practices for enabling employees to work remotely. Telecommuting will be on the rise as companies take advantage of the technology they already have in place. By loosening the corporate apron strings, you'll be able to provide your employees with a nice addition to the benefit package that doesn't add to and perhaps can even lower overhead costs.

SOA: ADOPTION WILL REPLACE SKEPTICISM

Currently, there is abating skepticism regarding SOA. For a while, people have been saying: "we've seen this movie before, and we know how it ends." Indeed, SOA had its unsuccessful prequels, including software ICs, object oriented design, and software componentry. Reflected in this caution are questions about ease of reuse and pessimism about payback periods.

Savvy adopters, however, are already using SOA to integrate siloed applications, retire costly legacy systems, and tighten relationships with partners. They are customizing off-the-shelf services for repeated use in IT cultures that that now operate with more centralization and consistency as a result of their use of SOA. As these early adopters increase both the number of services developed, and the frequency of reuse, the higher their ROI will be. As more users achieve critical mass along this curve — and it is shorter than the skeptics surmise — stories of successful SOA adoption will proliferate, and the late adopters will pile on.

ENTERPRISES WILL CLEAN HOUSE

Several trends are converging to compel businesses to shed unnecessary and duplicate systems. Over the years, successive acquisitions and IT projects have caused companies to have a profusion of software and hardware. Typically, systems are poorly connected, and some important applications are completely isolated. Companies are increasingly using integration technologies such as web services and service-oriented architectures to rebuild such patchworks with elegant solutions including enterprise service buses and hub-and-spoke arrangements. As these rationalizations increasingly take place, solutions that become redundant or don't speak the new lingua franca will be discarded. Expect this rationalization trend to be accompanied by increased outsourcing of non-core tasks, which will make for even smaller IT infrastructures.

MORE DEMAND FOR ON-DEMAND

On-demand solutions have moved beyond basic pay-as-you-go sales pipeline management applications to include rapidly deployable and customizable solutions for CRM, project management, financial and order management, e-commerce, and workflow.

The on-demand customer has matured as well, learning that maximizing the benefits from an on-demand solution requires more than a low price tag. Clear benefits, the ability to flexibly grow and change over time, and careful attention to user adoption are just as important in the on-demand world as with more expensive traditional solutions. We'll be watching for greater competition and more sophisticated demands from prospects across the on-demand landscape as well as migrations from large enterprises to on-demand in areas such as e-commerce, where significant costs can be driven out of the business by adopting the on-demand model.

OUTSOURCING ABROAD LOSES ITS GLAMOUR

We're already seen some of the charm of India fade, as the population of top programmers is tapped and costs rise. Although some will move work on to China or Bangkok, others will find that the costs of effectively managing offshore outsourcing outweighs the benefits. The good news is that the challenges of outsourcing – effective project and contract management as well as collaboration – have driven development of tools for distributed development that can support teams of programmers across the continent as well as around the globe. The next round? Now that it doesn't matter where developers live, companies can take advantage of the best global resources for a project – and use them more cost effectively whether they live in Delhi or Des Moines.

GOOGLE CHALLENGES MICROSOFT

The Google-Microsoft battle will be the most interesting vendor fight to watch. As Google pushes to take a bite out of the user market for Microsoft, will Microsoft have to make hard choices on which world it dominates, or can it continue to invest and succeed in being the solution of choice for both enterprise and home users?

Remember when Netscape's frenzied release cycle drove Microsoft to pay attention to dramatically improving Internet Explorer? We could see it again on the desktop as Google looks to take a bite out of the consumer desktop market with its word processing and other features. This challenge comes at the same time as Microsoft's drive to compete with the broader enterprise application players by making the Office environment the entry point to ERP, CRM, business intelligence, and other enterprise applications.

WIRELESS THAT WORKS

More and more wireless network availability and competition will make access to wireless broadband a cost-effective and easy way to enable broader collaboration and remote work – but will also mean individuals and companies need to pay more attention to both security and privacy risk factors and ensure they're accessing the Internet in the most cost-effective way. Look to service aggregators and competitive upgrade deals to drive even lower-cost access to wireless services. On the voice side, as old PBXs reach maturity voice over IP will enable greater speed, flexibility, and integration of voice networks as well as lower ongoing support costs.